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Superannuation ready reckoner: taxation and preservation rules for 2003–2004

This paper, updated for the 2003–2004 financial year, is designed to provide readers with a 'ready reckoner'—a simple, easy to use summary of superannuation taxation and preservation rules. It includes summaries of the latest changes to the superannuation system by the Government, as well as the Government's remaining proposed change to the taxation of superannuation from the 2001 election and the latest policy announcement concerning the interaction of the superannuation and old age pension systems.

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Contents

List of acronyms

ABN	Australian Business Number
ADF	Approved Deposit Fund
ALP	Australian Labor Party
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
ATO	Australian Taxation Office
ETP	Eligible Termination Payment
GST	Goods and Services Tax
RBL	Reasonable Benefit Limits
RSA	Retirement Savings Account
SG	Superannuation Guarantee
SGC	Superannuation Guarantee Charge

Introduction

Superannuation law is extremely complex and individual circumstances can drastically alter its general application. This paper has been prepared as a briefing and reference tool only and is not intended for use in a providing financial advice. This paper should not be used for determining the tax liability attached to superannuation in any particular case, especially in view of the many specific considerations that need to be addressed in a summary document of this kind. **The author disclaims any liability in relation to any financial decision taken which may be influenced by the content of this paper.**

Superannuation is a tax-effective investment vehicle,[1] but is known for its complexity and frequent change. The complexity covers most areas of the superannuation system including prudential legislation, taxation legislation and disclosure regulation. Frequent legislative changes contribute to the system's complexity. Additionally, the indexation of financial thresholds[2] each financial year results in numerous changes of these threshold levels.

This paper, updated for the 2003–04 financial year, is designed to provide readers with a 'ready reckoner'—a simple, easy to use summary of superannuation taxation and preservation rules, and covers the following topics:

- the taxation of superannuation contributions and benefits
- taxation of superannuation fund earnings
- the rebates that apply to certain superannuation contributions and benefits
- the level of superannuation contributions that employers must make
- the preservation rules that came into operation on 1 July 1999
- the application of the Goods and Services Tax (GST) to superannuation, and
- the proposed change to the taxation of superannuation that remains outstanding.

All figures in **bold** type are indexed thresholds, and are only current for the 2003–04 financial year.[3] As a ready reckoner was not published for the 2002–03 financial year references to the 2003–04 indexed figures will include, in brackets, the indexed figures for the 2002–03 financial year.

It is anticipated that this paper will continue to be updated at the beginning of every financial year.

This paper does not address the roles of the various government agencies that regulate the superannuation industry. However, it should be noted that prudential legislation and regulations, administered by the Australian Prudential Regulation Authority (APRA), are directed at safeguarding the assets of superannuation fund members and investors. Disclosure legislation and regulations, administered by the Australian Securities and Investments Commission (ASIC), are directed at ensuring superannuation fund members and investors are provided with relevant information by fund trustees to enable them to make a fully informed investment decision. Taxation legislation and regulations, administered by the Australian Taxation Office (ATO), are directed at superannuation funds and their members to collect revenue for the Commonwealth. The ATO also regulates self managed superannuation funds[4] and registers all new superannuation funds (self managed and APRA regulated superannuation funds) as part of the Australian Business Number (ABN) registration process. If a superannuation fund is to be regulated by APRA the ATO is required, once the ABN registration process has been completed, to pass the superannuation fund’s registration and information contained in the notice of election under the *Superannuation Industry (Supervision) Act 1993* (the SIS Act) and notice of establishment under the SIS Act to APRA.

The main focus of this paper is the taxation legislation and regulations that affect superannuation funds and their members.

Taxation of superannuation contributions

This section explains how superannuation contributions are taxed, the maximum amount of tax-deductible contributions that an employer can make and the tax offsets[5] that apply t

o certain superannuation contributions. A superannuation contribution is a payment to a superannuation fund, which is generally concessionally taxed. A tax rebate is a reduction in tax liability that has the same value to all taxpayers independent of the taxpayer's marginal tax rate.

Age based deduction limits

Contributions made to a complying superannuation fund[6] or Retirement Savings Account[7] (RSA) are fully tax deductible to employers up to the age based deduction limits. 'Self-employed persons' (whose income[8] from an employer is less than 10 per cent of their total income) get a full tax deduction on the first $5000[9] of contributions plus 75 per cent of the remaining contribution up to the age based deduction limits.[10] The deduction limits are:

Age of employee (years)	**Deduction limit 2003–04**	**(Deduction limit 2002–03)**
under 35	**$13 233**	($12 651)
35 to 49	**$36 754**	($35 138)
50 and over	**$91 149**	($87 141)

Taxation of contributions

Employer and tax deductible personal contributions are included in a complying superannuation fund's and RSA's income and are taxed at a rate of 15 per cent.

Surcharge on contributions

Prior to 1 July 2003 all employer contributions, certain 'golden handshakes' and tax deductible personal contributions made to superannuation funds for high-income earners[11] were subject to a surcharge of up to 15 per cent.

The maximum surcharge rate was reduced to 14.5 per cent for the 2003–04 year of income by the *Superannuation (Surcharge Rate Reduction) Amendment Act 2003*.[12] It will reduce to 13.5 per cent in the 2004–2005 year of income and 12.5 per cent in the 2005–2006 year of income.[13]

For the 2003–04 year of income the surcharge is currently phased in over the income levels of **$94 691** to **$114 981**. The rate at which the surcharge increases if the income level is between these two amounts is worked out by a formula in subsection 5(1) of the *Superannuation Contributions Tax Imposition Act 1997*. For the 2003–04 year of income, based on that formula, the surcharge increases by 1 per cent for each additional **$1399** of income from **$94 691**. (For the 2002–03 year of income the surcharge was phased in over the income levels of $90 527 to $109 924 with the surcharge increasing by 1 per cent for each additional $1295 of income from $90 527.)

The surcharge may also be payable if a member does not quote their Tax File Number to their superannuation fund. For an account which existed prior to 7 May 1997 and received less than the surchargeable contributions threshold of **$4058** ($3880 in 2002–03) the surcharge will not be levied merely due to the non-quotation of a Tax File Number in relation to that account for that year.

Government co-contribution for low income earners

The Government co-contribution for low income earners fulfils one of the Government’s 2001 election commitments and replaces the Low Income Superannuation Rebate (refer below).

From 1 July 2003 an employee who receives any form of employer superannuation support (but is not a ‘self-employed person’) is entitled to a Government co-contribution. An employee with income[14] less than $27 500 will be eligible for a dollar for dollar matched contribution of up to a maximum amount of $1000 for eligible personal contributions made to a complying superannuation fund. For an employee with a total income between $27 500 and $40 000 the maximum amount of Government co-contribution is reduced by eight cents for every dollar above $27 500. There is no entitlement to the co-contribution once an employee’s total income is $40 000 or more.

From the 2007–2008 year of income these thresholds will be indexed to increase in line with full-time adult average weekly ordinary time earnings.

If the annual sum of an employee’s eligible personal contributions is less than their maximum co-contribution amount then the Government’s co-contribution amount will be equal to the amount of the employee’s contribution, e.g. an employee with a total income of $20 000 who made personal contributions of $500 in the 2003–04 year of income will only receive a Government co-contribution of $500.

Low income superannuation rebate

Prior to 1 July 2003 an employee who received any form of employer superannuation support (but was not a 'self-employed person') was entitled to a tax rebate of up to $100 for personal contributions made to a complying superannuation fund, provided the employee's assessable (i.e. gross) income was less than $31 000. The tax rebate was calculated as 10 per cent of the lesser of:

- $1000 reduced by 25 cents for each dollar of the taxpayer's assessable income over $27 000, or
- the contribution actually made.

Low income spouse rebate

A contributing spouse is entitled to receive an 18 per cent rebate for contributions up to $3000 per annum to the superannuation fund or RSA of a spouse who has an assessable income of $10 800 or less per annum. The maximum rebate of $540 phases out on a dollar-for-dollar basis, and is not available when the low-income spouse's assessable income is $13 800 or more per annum.

Non-deductible contributions

As part of its 2001 election commitment the Government promised to introduce reforms to the superannuation system to allow contributions to superannuation accounts for children under the age of 18 and to allow recipients of the baby bonus to contribute to their superannuation funds. The legislation that introduced these initiatives treats them as undeducted contributions, meaning that the contributor will not be able to claim a tax deduction for the contributions, they will not be entitled to any rebates and the contributions will not be eligible for the Government co-contribution.

Contributions for children

From 1 July 2002 family and friends of a child under the age of 18 are allowed to make undeducted contributions to a superannuation fund on behalf of the child. The maximum amount that can be contributed for a child over a three year period is $3000. This initiative does not affect contributions made in accordance with the normal contribution rules that apply to employer and personal contributions.

Recipients of the baby bonus

From 1 July 2002 superannuation fund members who are not gainfully employed and eligible for the first child tax offset (the Baby Bonus) are permitted to make contributions to their superannuation fund provided the contribution is within 12 months of the Commissioner of Taxation being notified that the member was entitled to the offset. The contribution is not limited to the amount of the first child tax offset.

Regulation of superannuation contributions

The level of superannuation support an employer is required to provide to employees is prescribed under Federal and State industrial awards and the Commonwealth's Superannuation Guarantee (SG) scheme.

Under award superannuation, the parties (generally unions and employers) are bound by an industrial agreement (or award) to make superannuation contributions to a superannuation fund nominated in the agreement. The level of support is normally not greater than three per cent of ordinary time earnings (although this varies between awards).

The SG scheme requires all employers to provide a minimum level of superannuation support in each financial year for employees (with limited exceptions). The SG scheme operates in conjunction with award superannuation so that contributions made by an employer in conjunction with an industrial award may be counted towards the employer's superannuation guarantee obligations.

Superannuation guarantee

The superannuation guarantee rate for the 2002–03 and subsequent years of income is nine per cent of ordinary time earnings.

Quarterly superannuation guarantee

From 1 July 2003 employers are required to make superannuation guarantee contributions on a quarterly basis. Employers are also required to report to their employees on a quarterly basis the amount they have contributed on their behalf and where the contribution was paid.

Maximum contribution base

Employers who do not make SG contributions are liable for the SG charge (SGC). The SGC is made up of the employer's SG shortfall (the amount the employee should have received in SG contributions), an interest (or penalty) component and an administration component (to recover costs incurred by the ATO). When calculating an individual employee's SG shortfall, the amount of an employee's salary or wages used to calculate their 'ordinary time earnings' in a contribution period is limited to the maximum contribution base, which is **$30 560** ($29 220 in 2002–03), for each quarterly period.

Taxation of superannuation fund earnings

The investment earnings of a complying superannuation fund or RSA are taxed at a rate of 15 per cent. This rate can be reduced through the use of imputation credits.[15] Funds which are made non-complying are taxed at a rate of 47 per cent on their entire assets, apart from undeducted contributions, and any income. Superannuation funds can be non-complying either through choice or through failing to meet the necessary standards and condition required under prudential legislation to qualify for tax concessions.

Taxation of superannuation benefits

This section describes the taxation arrangements that apply to superannuation benefits. A superannuation benefit is the amount of money in the superannuation fund or RSA to which the fund member or RSA holder is entitled. Most benefits are payable on termination of employment and will often be subject to preservation (see 'preservation' below).

The taxation of superannuation benefits is complex due to changes made on 1 July 1983 and 1 July 1988 aimed at avoiding retrospectivity by applying new taxation treatment to only those portions of benefits attributed to service after 1 July 1983 and 1 July 1988.[16]

Eligible termination payments

Eligible Termination Payments (ETPs) are lump sums usually paid on retirement or resignation from a job and include 'golden handshakes', payments from superannuation funds, approved deposit funds (ADFs), and RSAs. ETPs are taxed differently from other income.

ETPs are comprised of several components (although not all ETPs have every component). Each component of an ETP is taxed in a different manner and may be subject to various rebates.

The various components of an ETP and their respective taxation treatment are provided in the following table:

ETP component	Maximum tax rate (add Medicare levy)
Pre–July 1983 component—the amount of an ETP that relates to superannuation benefits accrued with respect to employment before 1 July 1983.	5% of amount is taxed at marginal tax rates
Post–June 1983 component—refers to superannuation benefits accrued with respect to employment or fund membership after 30 June 1983. This component is the amount of the ETP reduced by the total amount of all the other ETP components. These benefits are taxed according to whether the fund earnings were taxable and the age of the benefit recipient, as follows. **<u>Person less than age 55:</u>** • **Taxed element**: a post-June 1983 component is a taxed element if the fund is subject to 15% tax on investment earnings of the fund (i.e. most superannuation funds). • **Untaxed element**: a post-June 1983 component is an untaxed element if the fund is not subject to 15% tax on investment earnings (e.g. some government superannuation funds and golden handshakes for employees). **<u>Person 55 years or over:</u>** • Taxed element: – from $0 to $**117 576** ($112 405 in 2002–03) – balance • Untaxed element: – from $0 to $**117 576** ($112 405 in 2002–03) – balance	 20% 30% 0% 15% 15% 30%
Undeducted contributions—member contributions (since 1 July 1983) not subject to a tax deduction (not included for RBL purposes—see below).	Exempt
CGT exempt component—an exemption from CGT (on a total maximum capital gain of $500 000) can be claimed on the sale of a small business where the proceeds are used for retirement.	Exempt
Concessional component—until 1 July 1994, this included any approved early retirement scheme payment, bona fide redundancy payment or invalidity payment. From 1 July 1994, ETPs no longer have a concessional component, except where an ETP with a concessional component was rolled over (transferred to) a complying superannuation fund before 1 July 1994 and subsequently paid out by the fund.	5% of amount is taxed at marginal tax rates
Post–June 1994 invalidity payments—the recipient's disability must be verified.	Exempt
Non–qualifying component—that part of an ETP that represents investment income accruing between the time of purchasing an annuity (other than by a rollover) and the time of payment.	Full amount taxed at marginal tax rates
Excessive component • Portion of the excessive component that reflects the taxed element of the post 30 June 1983 component. • The remainder of the excessive component.	 38% 47%

Reasonable benefit limits

The amount of concessionally taxed superannuation benefits a person is allowed to receive over his or her lifetime is limited by reasonable benefit limits (RBLs). The table below shows the lump sum and pension RBLs. The pension RBL is available provided that at least 50 per cent of the total benefit received by a person is taken in the form of a pension or annuity that satisfies the pension and annuity standards.

Reasonable Benefit Limits	2003–04	(2002–03)
Lump sum	**$588 056**	($562 195)
Pension	**$1 176 106**	($1 124 384)

Bona fide redundancy payments

From 1 July 1994 a limit was set on redundancy and early retirement payments. Amounts within the limit are exempt from tax. For the 2003–04 year of income the limit is **$5882** ($5623 in 2002–03) plus **$2941** ($2812 in 2002–03) for each year of completed service.

Death benefits

All death benefits made on or after 1 July 1994 are subject to pension RBLs. Death benefit payments made directly to the dependants of a deceased member are exempt from tax up to the deceased person's pension RBL. Any amount above that is treated as an excessive component. When paid to a person other than a dependant, death benefit payments become ETPs. The post June 1983 death benefit ETP is taxed at 15 per cent if paid from a taxed source and 30 per cent if paid from an untaxed source.

Pension and annuity rebate

Where a person receives an ETP and uses it to purchase an annuity or pension from a taxed superannuation fund and the person is 55 or more years of age, the person is entitled to a tax rebate, at 15 per cent, on the assessable part of the annuity or pension payment that is not in excess of the person's RBL.

Departing Australia superannuation payments

From 1 July 2002 temporary residents who permanently depart Australia can gain access to their accumulated superannuation. To be eligible for a payment:

- the person must have entered Australia on an eligible temporary resident visa (New Zealand residents are excluded)
- the person’s visa must have expired or been cancelled, and
- the person must have permanently departed Australia.

The payment of superannuation benefits that qualify as departing Australia superannuation payments are subject to special withholding tax rates to claw back the tax concessions the contributions received when originally paid into the superannuation system for retirement income purposes. These are set out in the *Income Tax (Superannuation Payments Withholding Tax) Act 2002* as follows:

- undeducted contributions or post-June 1994 invalidity component – nil
- post-30 June 1983 untaxed component – 40 per cent, and
- the remainder of the payment – 30 per cent.

Income tax rates

Individual income tax rates are relevant to calculating an individual's superannuation entitlement. For example, a fund member that has an ETP that contains a non-qualifying component has taxation levied on that component at the member's marginal income tax rate. In addition, if a fund member has an ETP that contains a concessional component, five per cent of that component is taxed at the member's marginal income tax rate. The marginal income tax rates are in the following table:

Taxable income ($)	**Marginal income tax rate (%)**
up to 6000	0
6001–21 600	17
21 601–52 000	30
52 001–62 500	42
excess over 62 500	47

The marginal income tax rates above apply to Australian residents and do not include the Medicare levy, which is generally 1.5 per cent. A low-income rebate, worth a maximum of $235 ($150 in 2002–03), can affect the tax paid for lower income earners.

These marginal income tax rates came into affect from 1 July 2003.

Preservation rules

Preservation refers to the prudential regulatory requirement[17] that certain superannuation benefits be maintained either in a superannuation or rollover fund or RSA until permanent retirement or after the member reaches preservation age. Benefits may be paid on a member’s death or invalidity prior to preservation age.

New preservation rules from 1 July 1999

New preservation rules, administered by APRA and the ATO, took effect from 1 July 1999. Under the new regulations, all superannuation contributions (including member contributions) and superannuation fund investment earnings, from that date forward, will be preserved until the member's preservation age. Pre-1 July 1999 non-preserved components of a member's superannuation entitlement generally retain their non-preserved status.

Prior to 1 July 1999 some monies held in a member’s superannuation fund account were unpreserved benefits and could be accessed, subject to some restrictions, without having to wait until the member had reached their preservation age and retired from the workforce. An example is member contributions made from after tax income prior to 1 July 1999 where the member is no longer working for the employer with whom they were employed when they made the member contributions.

New preservation age from 1 July 1999

Preservation age is the age at which a fund member can gain access to benefits that have accumulated in a superannuation fund or RSA, provided the member has permanently retired from the workforce.

The Government announced in the 1997 Budget that the preservation age would be increased from 55 to 60 years on a phased-in basis. By 2025, the preservation age will be 60 years for anyone born after June 1964, with the age 60 years preservation age being reduced by one year for each year that the person's birthday is before 1 July 1964. This means that persons born before 1 July 1960 will continue to have a preservation age of 55. The following table summarises the phase-in schedule:

For a person born	**Preservation age (years)**
Before 1 July 1960	55
1 July 1960–30 June 1961	56
1 July 1961–30 June 1962	57
1 July 1962–30 June 1963	58
1 July 1963–30 June 1964	59
After 30 June 1964	60

Under the new preservation rules, a person will continue to be allowed to have early access to preserved benefits where the benefits are taken in the form of a non-commutable lifetime pension or lifetime annuity on termination of gainful employment, subject to the governing rules of the fund or RSA. Preserved superannuation benefits can be accessed on compassionate grounds and severe financial hardship.

GST and superannuation

This section summarises how the GST is applied to superannuation funds.[18]

The GST is a broad–based value–added tax of 10 per cent on most goods and services supplied in Australia. It is fully effective from 1 July 2000. (Some contracts entered into before that date are affected by the GST.) The GST is payable on transactions where goods and/or services are supplied for consideration (payment). No business is GST free; only certain transactions may be classified as such.

In all countries that have a GST–type tax, financial services are given special treatment. This is because of the difficulty in valuing the service provided when there are sums of capital and interest and other earnings in most financial transactions. It is just too hard and uncertain to unscramble the egg when a fee for service and an interest charge may both be involved in a transaction. Accordingly, financial services are 'input taxed'.

Superannuation funds are financial supplies,[19] meaning the provision, acquisition, or disposal of an interest in or under a superannuation fund, scheme, ADF or RSA or in or under an annuity or allocated pension, is a financial supply. Accordingly, no GST is payable by superannuation funds in respect of contributed capital and related fees paid by members or employer sponsors as the consideration for the rights or interests of the members in the fund or scheme.

Most of the services provided by superannuation funds are free of GST; that is, they are 'input taxed financial supplies'. This means that superannuation funds pay GST on many of their purchases (e.g. computers), do not levy GST on the supplies they make to their ultimate customers (i.e. on benefits paid to fund members), and are input–taxed (i.e. they are not able to obtain input credit for the GST levied on the goods or services they purchased).

Nonetheless, in some circumstances superannuation funds are eligible for reduced input tax credits. For example, superannuation funds are eligible for reduced refunds of the GST they paid for administration and legal services. In addition, superannuation funds also have to levy GST on their non–'input tax financial supplies'. For example, superannuation funds are required to levy GST on the supply of premises to commercial property tenants. If a superannuation fund's turnover (which excludes input taxed supplies) exceeds $50 000 per year, it must register with the ATO for GST purposes. The Government is also encouraging people who manage their own superannuation funds to apply for an ABN to assist with the administration of their fund. Possession of an ABN does not necessarily mean that a superannuation fund is registered for the GST.[20]

Proposed changes

During the 2001 election campaign, the Government released a number of proposed reforms to superannuation.[21] The last major commitment to be legislated is the splitting of superannuation contributions between spouses. Legislation for this commitment was introduced into Parliament on 11 September 2003 and is awaiting debate in the Senate.

With an election expected sometime in 2004 both the Coalition and the Australian Labor Party (ALP) have released policy statements on superannuation.

The Coalition's *A more flexible and adaptable retirement income system* (accessed at: http://dpl/Books/2004/Cwlth_FlexibleRetirement.pdf[22]) was released by the Treasurer, the Hon. Peter Costello MP, on 25 February 2004 as part of the 'Australia's Demographic Challenges' announcement.[23] Included in the Coalition's proposals are:

- removing the work test for anyone under the age of 65, from 1 July 2004
- allowing market linked pensions[24] to be treated as complying pensions. from 20 September 2004
- reducing the full exemption of complying pensions under the age pension asset test to 50 per cent exemption from, 20 September 2004
- simplifying the work test for people aged between 65 and 74 who wish to continue working and while still contributing to their superannuation fund, from 1 July 2005, and
- allowing people to take non-commutable income streams once they reach their preservation age and keep working, from 1 July 2005.

The ALP has released three superannuation policy statements that can be found on the ALP website. The proposals in the three documents might be discussed in future updates if the ALP wins government at the next election and the documents form the basis of government policy. The three statements are:

- 'Superannuation: A Simpler System' released on 13 November 2003 (can be accessed at: http://parlinfoweb.parl.net/parlinfo/Repository1/Library/partypol/AH9B63.pdf[25])
- Superannuation: A Safer System released on 20 November 2003 (can be accessed at: http://parlinfoweb.parl.net/parlinfo/Repository1/Library/partypol/BVQB60.pdf[26]), and
- Superannuation: Setting a Goal released on 15 March 2004 (can be accessed at: http://parlinfoweb.parl.net/parlinfo/Repository1/Library/partypol/ZRXB61.pdf[27]).

Endnotes

1. The value of the superannuation tax concessions to low income earners, i.e. those subject to a marginal tax rate of either 17 per cent or 30 per cent, has been questioned by some experts. Refer to: David Knox, 'Is superannuation really taxed concessionally?' *Journal of the Securities Institute of Australia (JASSA)*, Spring 2003, pp. 28–30. When looking at the whole taxation impact on superannuation contributions and periods of low or negative earnings compared to other forms of investment there is evidence that this proposition has some merit. However, these studies are often limited by the models used to generate the results and may not address all the possibilities or benefits available to taxpayers.
2. In the tax, superannuation and welfare systems financial thresholds are the levels of income at which benefits provided under those systems are phased out (reduced) or cease to be available to potential beneficiaries.
3. Indexed thresholds were obtained from the following sources:

   Commissioner of Taxation, *Superannuation Guarantee Determination*, SGD 2002/1

   Commissioner of Taxation, *Superannuation Guarantee Determination*, SGD 2003/1

   Commissioner of Taxation, *Superannuation Contributions Determination*, SCD 2002/4

   Commissioner of Taxation, *Superannuation Contributions Determination*, SCD 2003/4

   Commissioner of Taxation, *Taxation Determination*, TD 2002/11, and

   Commissioner of Taxation, *Taxation Determination*, TD 2003/21.
4. Self managed superannuation funds are superannuation funds with less than 5 members where all the members of the fund are also the trustees of the fund.
5. Tax offsets is the generic term used by the Australian Taxation Office to refer to tax offsets, tax rebates and tax credits.
6. A complying superannuation fund qualifies for concessional tax rates. It is regulated under the *Superannuation Industry (Supervision) Act 1993.*
7. RSAs are simple low-cost, low-risk superannuation products offered by life insurance companies, banks, building societies and credit unions. They are regulated under the *Retirement Savings Account Act 1997* and have the same tax treatment as superannuation.
8. Income for the purpose of determining age based deduction limits includes reportable fringe benefits.
9. The limit was increased from $3000 to $5000 as part of amendments to the *Income Tax Assessment Act 1936* by the *Taxation Laws Amendment (Superannuation) Act (No. 2) 2002,* with affect from 1 July 2002.
10. For self employed people in the 2003–04 year of income the contributions required to be able to claim as a deduction the full age based limit are:

    age under 35—$15 977

    age 35 to 49—$47 339

age 50 and over - $119 865

11. For the purpose of this paper a high income earner is person whose adjusted taxable income (which includes the person's assessable income, eligible termination payments, surchargeable contributions and reportable fringe benefits) is at least equal to the lower income amount as defined in the *Surcharge Contributions Tax Impositions Act 1997*.

12. The *Superannuation (Surcharge Rate Reduction) Amendment Act 2003* received Royal Assent on 12 November 2003.

13. During the 2001 election campaign the Government released its superannuation policy document *A Better Superannuation System*. In relation to the reduction of the superannuation surcharge the Government stated:

    > The Coalition is keen to ensure that superannuation remains attractive and encourages all employees to save for their retirement. Commencing on 1 July 2002, a re-elected Coalition Government will reduce the surcharge rates by a tenth of their current level over each of the next three years (i.e. a maximum of 1.5 percentage points each year).

14. Total income of a year of income is defined in section 8 of the *Superannuation (Government Co-Contribution for Low Income Earners) Act 2003* as being the person's assessable income for the year of income and their reportable fringe benefits for the year of income.

15. Imputation credits form part of the dividend imputation system. *The Australian Financial Review: Dictionary of Investment Terms* describes 'Imputation Credit' as

    > Taxation credits which are passed onto shareholders who have received franked dividends in relation to their shareholdings.

16. For more information on the evolution of the taxation of superannuation, refer to Michael Reid, 'Supercalifragilisticexpiannuation—A Plain English Guide to Australian Superannuation Arrangements', *Background Paper No. 23 1994*, Department of the Parliamentary Library.

17. These prudential regulatory requirements are set out in the *Superannuation Industry (Supervision) Act 1993* and the *Superannuation Industry (Supervision) Regulations.*

18. For more details see the Association of Superannuation Funds of Australia and the GST Start–Up Office, *The Goods and Services Tax and the Superannuation Industry Workbook, January 1999*, website at: http://www.superannuation.asn.au/gst/rpm.cfm?page=workbk.

19. This is set out in Regulation 40–13 of *A New Tax System (Goods and Services Tax) Regulations 1999*.

20. See The New Tax System Advisory Board media release, *Self Managed Super Funds Should Apply for an ABN Now*, 28 May 2000.

21. Liberal Party of Australia, *A Better Superannuation System*, November 2001.

22. This document can also be accessed from the Department of the Treasury website at: http://demographics.treasury.gov.au/content/_download/flexible_retirement_income_system/flexible_retirement_income_system.pdf

23. The press release for *A more flexible and adaptable retirement income system* can also be accessed at: http://parlinfoweb.parl.net/parlinfo/Repository1/Media/pressrel/6MRB61.pdf. The press release and policy document can be accessed at: Australia's Demographic Challenges — Home.
24. A market linked pension is an income stream product that invests in assets other than fixed-interest investments.
25. This document can also be accessed from the ALP website at: pp15_simple_super.pdf on ftp.alp.org.au
26. This document can also be accessed from the ALP website at: safer_super.pdf on ftp.alp.org.au
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